MERGERS AND ACQUISITIONS

AIMS :

- ☺ ***To learn about***: mergers and acquisitions, key vocabulary of mergers, takeovers and buyouts.
- ☺ ***To learn how to:*** talk about cause and effect
- ☺ ***To practise:*** talking about the effects of takeovers

Mittal in £13bn hostile bid for Arcelor

Arcelor to merge with Russian steel group

UK acquisitions already worth $66bn this year

eBay snaps up PayPal for £1bn

Corporate raiders making a comeback

Google gobbles up YouTube in $1.65bn takeover

After GE acquisition, Swiss Re says 2,000 jobs to go

"I'm feeling absolutely marvelous. I think I'll acquire another company."

LEAD IN

- What is a merger?
- What is a takeover?
- What is a takeover bid?
- What is a raid?
- What is a friendly takeover?
- What is a hostile takeover?
- Why do companies merge?
- Why do companies buy other companies?

Think of a recent merger or takeover that was reported in the press: what were the reasons behind it?

VOCABULARY

Match up these words with the definitions below.

backward integration - to diversify (diversification) - forward integration
horizontal integration - to innovate (innovation) - to merge (a merger) - a raid
synergy - a takeover bid - vertical integration

1. Designing new products and bringing them to the market
2. To expand into new fields
3. To unite, combine, amalgamate, integrate, or join together
4. Buying another company's shares on the stock exchange, hoping to persuade enough other shareholders to sell to take control of the company
5. A public offer to a company's shareholders to buy their shares, at a particular price during a particular period, so as to acquire a company
6. To merge with or take over other firms producing the same type of goods or services
7. Joining with firms in other stages of the production or sale of a product
8. A merger with or the acquisition of one's suppliers
9. A merger with or the acquisition of one's marketing outlets
10. Combined production that is greater than the sum of the separate parts

READING : MERGERS, TAKEOVERS AND BUYOUTS

Read the text and match the titles to the paragraphs

1. Disadvantages of takeovers
2. Raiders and asset-stripping
3. Raids and bids
4. The 'make-or-buy' decision
5. The role of banks

A.

Successful companies generally want to diversify; to introduce new products or services, and enter new markets. Yet entering new markets with new brands is usually a slow, expensive and risky process, so buying another company with existing products and customers is often cheaper and safer. If a country is too big to acquire, another possibility is to merge with it, forming a new company out of the tow old ones. Apart from diversifying, reasons for acquiring companies including getting stronger position in a market and a larger market share, reducing competition, benefiting from economics of scale, and making use of plant and equipment.

B.

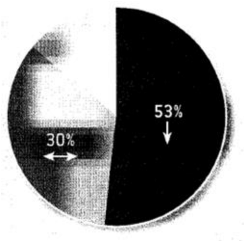
There are two ways to acquire a company: a raid or a takeover bid. A raid simply involves buying as many of a company's stocks as possible on the stock market. Of course if there is more demand for stock than there are sellers, this increases the stock price. A takeover bid is a public offer to a company's stockholders to buy their stocks at a certain price (higher than the current market price) during a limited period of time. This can be much more expensive than a raid, because if all the stockholders accept the bid, the buyer has to purchase 100% of the company's stocks, even though they only need 50% plus one to gain control of a company. (In fact they often need much less, a many stockholders do not vote at stockholders' meeting.) If stockholders accept a bid, but receive stocks in the other company instead of cash, it is not always clear if the operation is a takeover or a merger – journalists sometimes use both terms.

C.

Companies are sometimes encouraged to take over other ones by investment banks, if researchers in their Mergers and Acquisitions departments consider that the target companies are undervalued. Banks can earn high fees for advising on takeovers

D.

Yet there are also a number of good arguments against takeovers. Diversification can damage a company's image, goodwill and shared values (e.g. quality, good service, innovation). After a hostile takeover (where the managers of a company do not want it to be taken over), the top executives of the newly acquired company are often replaced or choose to leave. This is a problem if what made the company special was its staff (or 'human capital') rather than its products and customer base. Furthermore, a company's optimum size or market share can be quite small, and large conglomerates can become unmanageable an inefficient. Takeovers do not always result in synergy. In fact, statistics show that most mergers and acquisitions reduce rather than increase the company's value.



Stockholder value: was the company's stock price higher 12 months after the merger or acquisition, compared with the overall trend for the industry?

A survey of the 700 largest international merger and acquisition deals during a three-year period showed the following:

In 17% the deal created value.
In 30% the deal neither created nor destroyed value.
In 53% the deal destroyed value.

E.

Consequently, corporate raider and private equity companies look for large conglomerates (formed by a serious of takeovers) which have become inefficient, and so are undervalued. In other words, their market capitalization (the price of all their stocks) is less than the value of their total assets, including land, buildings and – unfortunately – pension funds. Raiders can borrow money, usually by issuing bond, and buy the companies. They can split them up or sell off the assets, and then pay back the bonds while making a large profit. Until the law was changed, they were also able to appropriate the pension funds. This is known as asset – stripping, and such takeovers are called leveraged buyouts or LBOs. If a company's own managers buy its stocks, this is a management buyout of MBO.

VOCABULARY 1

Find words or phrases in the text that mean the following:

1. **Adding new and different products or services**
2. **A company's sales expressed as a percentage of the total sales in the market**
3. **Reductions in costs resulting from increased production**
4. **Money paid to investment banks for work done**
5. **All the individuals or organizations that regularly or occasionally purchase goods or services from a company**
6. **Best, perfect or ideal**
7. **Combined production or productivity that is greater than the sum of the separate parts**
8. **People or companies that try to buy and sell other companies to make a profit**
9. **Large corporation or groups of companies offering a number of different products or services**
10. **Buying a company in order to sell its most valuable assets at a profit**

LISTENING *in autonomy*

You are going to listen to Peter Sinclair talking about the role of banks in mergers and takeovers. Before you listen, check your understanding of the words and phrases (1-5) below by matching them with their definitions (a-e)

1. **A buying spree**
2. **Boom**
3. **Cyclical**
4. **Slump**
5. **To drum up a business**

a) A period when an economy is doing badly
b) Buying a lot in a short period
c) To try to get new customers
d) A period when an economy is doing very well
e) Going round and round or repeating

Now listen, and look at the following statements. Are they true or false, according to Peter Sinclair?

1. **Investment banks sometimes encourage companies to acquire other ones, because this creates business for the bank.**
2. **The acquisitions policy of well-managed companies can be influenced by banks.**
3. **There are more takeovers when share prices are high.**
4. **Share prices were high all through the 1980s and the 1990s.**
5. **When share prices are high, investment banks tell companies what to buy.**
6. **A company that does not want to be taken over will get advice from a large financial institution such as an investment bank.**
7. **The value of merchant banks has recently gone down.**